

KENTUCKY DEPARTMENT OF EDUCATION

STAFF NOTE

Review Item:

Audit Update and Review of the Commissioner's Expenses

Applicable Statute(s) or Regulation(s):

KRS 45.149

History/Background:

Existing Policy. At the October 2007 KBE meeting, a staff note was presented to the KBE Audit Committee resulting in discussion and action items to consider and approve. Several audits have been completed, or are currently in process since that time. These audits are conducted by the Office of the Auditor of Public Accounts ("APA") as part of their normal statutory functions. KDE staff will be present at the Audit Committee's meeting to discuss the audits described below and answer the committee's questions. Additionally, as is customary during this committee meeting, information on the commissioner's expenses will be presented.

The Internal Audit Charter authorizes the use of the APA to fulfill the internal audit role of KDE.

Audit Reporting Changes

To meet reporting requirements of new auditing standards (SAS 103), the APA now issues the annual Statewide Single Audit of Kentucky (SSWAK) report in 2 volumes. SSWAK – Volume I contains audit findings and financial information from our audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR). And, SSWAK – Volume II presents findings resulting from the audit of federal programs as required by OMB Circular A-133. The current work on these audits is addressed below.

Update on audits since October 2007

The APA audits performed at the request of the Kentucky Department of Education are as follows:

Child and Adult Care Food Program for Federal FY2007 -

The APA was engaged to assist KDE in evaluating the reasonableness of claims submitted for reimbursement under the Child and Adult Care Food Program (CACFP) for federal fiscal year ending September 30, 2007. The APA reviewed 6 months (October 2006 – March 2007) of claims for reimbursement submitted by 12 program sponsors with a total of 59 sites and evaluated each sponsor's compliance with program requirements set forth in federal regulations at 7 CFR Part 226. The findings associated with these reviews were submitted to KDE's Division of Nutrition and Health Services for follow-up with the sponsors. As of August 29, 2008, the final reports for the federal FY2007 review have not been issued. The reports will be

issued upon completion of KDE's follow-up with the program sponsors, which is currently in process.

A-133 Desk Reviews -

The APA was engaged to perform desk reviews of the FY2007 CPA audits submitted by the school districts and other entities that expend federal funds passed through from the Kentucky Department of Education. The school districts are required to submit an annual audit to KDE in accordance with statutes KRS 156.200 & 156.265. The APA performed the desk reviews over these audits to ensure compliance with relevant reporting standards and federal subrecipient monitoring requirements set forth in OMB Circular A-133. The results of the desk reviews are then submitted to KDE for follow-up with the CPAs who performed the audits. The results of the FY2007 desk reviews were reported to KDE's Office of District Support Services. As of August 29, 2008, the report summarizing the desk review results for all districts is being finalized.

Performance Audit of State Assessment Testing -

The APA's Performance Audit Division is currently performing an audit of state assessment testing. This audit encompasses FY2007 & FY2008. The APA's anticipated date for completion of this audit is 12/31/2008. This audit was requested by the Government Contract Review Subcommittee.

Federal Health Insurance Reimbursement -

The APA was engaged to assist KDE in ensuring that procedures are in place over district reimbursements to KDE of insurance expenses from federal grants for federally paid district employees. As part of the engagement, Auditors documented procedures established and used to verify that federal programs were charged accurately for health insurance expenses; determined the federal programs that were charged; visited a sample of districts and documented procedures used to calculate the amount to be paid to KDE; performed analytics to determine what has been remitted over the last three years and the reasoning for any variances in payments to KDE; and, determined if these expenditures are in the federal reimbursement requests. The fieldwork associated with this engagement is complete. Auditors are currently working on summarizing their results and assimilating the report.

APA statewide audits that included a review of the Department of Education included:

SEEK Transportation Study -

The APA audits SEEK General Fund expenditures as part of its annual financial audit at KDE. KDE engaged the APA to perform specific agreed upon procedures to further analyze SEEK transportation expenses from a sample of districts; review laws and regulations governing the transportation component of the SEEK calculation; review the calculation used to determine the transportation allotment for a sample of districts; and, visit a sample of districts and document procedures used to track transportation expenses. The fieldwork associated with this engagement is complete. Auditors are currently working on summarizing their results and assimilating the report.

FY2007 Statewide Single Audit -

The results of the FY2007 SSWAK audit disclosed 6 significant deficiencies and 6 control deficiencies relating to general controls over KDE's information systems. There were a total of 9 recurring comments as well as 3 new comments issued to KDE during the FY2007 audit. Significant security concerns over general controls were identified within the Office of Education Technology, Office of District Support Services, and KDE as a whole. The significant deficiencies were reported in Volume I of the FY2007 SSWAK report that was released on December 18, 2007. The control deficiencies were reported to KDE in a management letter dated May 1, 2008. That letter is attached to the staff note and includes KDE's responses to the Auditor's recommendations.

FY2008 Statewide Single Audit -

The annual SSWAK audit for FY2008 is currently in progress at KDE. The scope of the FY2008 Phase I financial audit at KDE includes SEEK - General Fund expenditures, Federal Fund expenditures, Federal Fund receipts, and the schedule of expenditures of federal awards (SEFA), and follow-up on all prior year audit findings issued in the FY2007 audit. The scope of the FY2008 Phase II compliance audit at KDE includes the following federal awards programs: Improving Teacher Quality and the Child Nutrition programs.

The FY2008 Information Technology (IT) audit was recently completed and disclosed 17 formal comments concerning the program modification process, logical and LAN security, segregation of duties/controls, policies and procedures over IT governance, processing of contract payments, contract oversight, and disaster recovery. The results of the FY2008 KDE audit will be reported in the SSWAK report and in a separate agency management letter. Volume I of the SSWAK report will be issued in December 2008 and Volume II will be issued in March 2009.

Impact on Getting to Proficiency:

Efficient and effective financial controls within the Kentucky Department of Education are essential to ensure that monies are used appropriately by KDE and by districts for the purpose of supporting schools and districts in reaching proficiency.

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Deputy Commissioner

Commissioner of Education**Date:**

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